

REPORT ON
STRATIFYING
MAJOR DISCREPANCIES



U.S. Customs Service
Trade Discrepancy Group
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FORWARD

**If you have any questions regarding this paper, please call the
Advanced Development Division,
(202) 927-5228
or, if you prefer, please feel free to contact us at our e-mail address
automation.support.ost@customs.treas.gov**

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1.0 OVERVIEW

In March 1997, Customs field and headquarters personnel met to develop uniform discrepancy definitions for cargo exam, entry processing and summary review, and identify which of these constitute significant discrepancies. The Customs Trade Compliance Process Board has approved the recommendations contained here.

- All (letter of the law) discrepancies would continue to be recorded because this is a reflection of additional work performed.
- Discrepancies identified as important would be referred to as **Major Discrepancies**.
- Publish a discrepancy input reference guide for field inspection officers. This would include legal/statutory definitions for each discrepancy type, provide illustrative examples of those discrepancies and instructions as to where the discrepancies should be recorded in ACS.
- Field officers would continue recording discrepancies. However, computer programming would identify major discrepancies for analysis. It would not be the responsibility of field officers.

Proper consideration of trade compliance, and raising trade compliance, must take into account the interplay of the value of line transactions and the number of line transactions. Individually, neither value nor line counts effectively shows the true state of compliance. Issues raised by high value, low frequency line non-compliant transactions significantly differ from issues raised by low value, high frequency line non-compliant transactions. Problems in the former set of circumstances may require more resources expended on individual shipments. In the latter, more resources may be devoted to a commodity.

Historically, Customs has focussed on examining individual importations, whether the cargo was off-loaded from a ship of sail, a steamer, or the newest container vessel or supersonic transport. Although not consciously rationalized, the earliest trade compliance efforts, based on examining individual transaction, was pragmatic when the amount of imports was manageably low and the prospect of inspection constituted a real deterrence. Today, deterrence is problematic, because shipments are released into domestic commerce with minimum Customs activity.

Stratifying discrepancies and devoting trade compliance efforts on significant discrepant issues will better portray compliance, as reflected by line and value, and better direct our trade compliance efforts.

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2.0 MAJOR ISSUE DISCREPANCIES (MID)

The following constitute Major Issue Discrepancies: (MIDs): Illegal Narcotics; Intellectual Property Rights (IPR); Customs and Other Agency Refusals; Misdelivery (not including shipments proved stolen from the carrier); Quota/Visa, if the change in quantity is more than 10%; Eight-digit Misclassifications –Chapter (2), sub-Chapter (4), International (6) and U.S. tariff rate level (8), Line Release C4 classification discrepancies ; Anti-Dumping/Countervailing Duty (ADCVD); Not Legally Marking; Country of Origin; Special Program Indicator (SPI); Forced Labor; all unentered merchandise, not associated with any line, constituting line values exceeding \$2,000; all imports where the value discrepancy is either 10% or \$5,000 in excess of the entered line's value; all imports where the quantity discrepancy is either 10% or \$5,000 in excess of the entered line's value; all imports where there is an excess of \$1,000 in revenue loss.

The following is a list of discrepancies. These items still have statutory relevance, requiring Customs' enforcement. However, they **do not** rise to the level of Major Issue Discrepancies; 10 digit Misclassification; all clerical errors; all miscellaneous discrepancies (other than misdeliveries and unentered lines valued at less than \$2,000); all entry level discrepancies not specifically associated with a line, e.g., late files; all unentered lines values at less than \$2,000; all imports where the value discrepancy is less than 10% or \$5,000 of the entered line's value; all imports where the quantity discrepancy is less than 10% or \$5,000 of the entered line's value; and all imports where less than \$1,000 taxes.

Please note there is no minimum line value (value threshold) associated with Major Issue Discrepancies. In other words, once a discrepancy fits one of the above descriptions, it is a MID.

Fiscal Year 1998 Compliance Measurement (CM) data may be displayed with a "Four Square Compliance Matrix", that shows 4 Compliance Rate (CR) percentage figures. The Matrix will be used to portray national CM data but, it can also be used to portray local CM rates or a harmonized Tariff's CM rate too. (Reading left to right, and top to bottom, these rates are: Major Issue CR, Major Transactions CR, All Issues CR and All Transactions CR.) The Compliance Matrix is a short hand way to present compliance rates for value and line transactions and in terms of major compliance and all compliance. To facilitate understanding, the following is a **partial** representation of the "Four Square Compliance Matrix" showing **only** Major and All Issue CR. For clarity, the compliance data has been shaded, the labeling has not:

ISSUES	
MAJOR	$\frac{1 - (\text{ISSUE OF MAJOR NON COMPLIANCE divided by TOTAL IMPORT VALUE})^1}{= \quad \quad \quad \mathbf{X\%}}$
ALL	$\frac{1 - (\text{ISSUE OF ALL NON COMPLIANCE divided by TOTAL IMPORT VALUE})^2}{= \quad \quad \quad \mathbf{X_1\%}}$

FIGURE 2-1. COMPLIANCE RATE MATRIX-ISSUES

The value placed in the **upper box**, is the percentage, based on import value, of importations without a MID recorded at either cargo inspection or summary review. (Shown as X% in Figure 2.1 above.) The Major Issue Compliance Rate is the compliance rate expressed as a percentage of total import value. (If the MID dollar value equals 10% of all importations, the figure in the upper box is 90%.)

The value placed in the **lower box** is the percentage, based on import value, of all compliant importations. (This quadrant is shown as X% in Figure 2.1 above.) Placing 86% in the **lower left** quadrant means, 86% of all importations, by value, is compliant. All discrepancies, both value discrepancies and minor discrepancies, would lower the overall compliance rate as defined by value.

2.1 EXAMPLES SHOWING HOW MAJOR ISSUE RATE IS DETERMINED

As an example, let's imagine a port with \$1,000 in import value for a single tariff number. Let's further imagine, that \$800 (80%) of the import value was imported totally compliant, \$100 (10%) was not legally marked and \$100 (10%) was not a major value discrepancy. This results in a Major Issue Compliance of 90% and an overall compliance rate of 80%. Why? To calculate the Major Issue Compliance, we divide all compliant transaction's value \$800 (80%) plus the non-MIDs \$100 (10%), and divide by the total import value \$1,000 (\$800 + \$100=\$900/\$1,000 = 90%). To calculate overall Issue Compliance, divide all compliant transaction's value \$800 (80%) by total import value \$1,000 (\$800/\$1,000 = 80%).

Please remember when the discussion concerns Major Compliance rates in relation to Major discrepancy rates, the two terms are mathematical complements, i.e., combined together they always equal 1 or, in terms of rates, 100%. This is also true for a discussion concerning overall compliance and discrepancy rates. Combining these two rates always equals 100%.

As another example, suppose a port with \$1,000 in imported value. No discrepancies were recorded against 80% of the value of importations, 5% was misclassified at the eight-digit level (major issue discrepancy) and 15% was misclassified at the 10-digit level. This situation would result in a 95% Major Issue Compliance and 80% overall compliance in terms of value.

Stratifying major discrepancies from all discrepancies is not the responsibility of officers inputting the discrepancy. Instead, stratifying discrepancies will be an automated, post transaction system, developed by The Analytical Development Division (ADD), located within the Office of Strategic Trade. Major Discrepancy information will be incorporated in ADD analytical tools, such as Customs Automated Port Profile System (CAPPS), beginning in April, 1999. This will enhance analysis to determine resource allocation, what interventions to undertake, which accounts need especially tailored informed compliance work, etc.

3.0 MAJOR TRANSACTIONAL DISCREPANCIES (MTD)

Narcotics	ALL
Intellectual Property Rights	ALL
Refused Admission by Customs or Other Agency	ALL
Misdelivery	ALL
Anti Dumping Countervailing Duties	Where the line is valued at greater than the Case's median line value OR greater than the median value of the Primary Focus Industry (PFI) ¹ or the Harmonized Tariff Schedule (HTS) number
Quota/Visa	Where the quantity is 10% or greater than the entered amount OR greater than the threshold value ² for the specific PFI or all non PFI's
All Unentered Merchandise	In excess of \$2,000 and not associated with any entered line

The following Transactional Discrepancies will be major ONLY IF the discrepant line's value is greater than the threshold line value for the specific PFI or all non PFI's.

- Special Program Indicator
- Marking
- Country of Origin
- Classification Changes involving the first 8 digits. (This includes Line Release C-4 classification errors.)
- Value and Quantity where the change exceeds 10% of the entered amount
- Any and all other discrepancies resulting in an increase \$1,000 of Revenue.

¹ Incidentally, the term Primary Focus Industry is used to identify classes of merchandise with important trade implications to U.S. economy. An OST executive committee approved the tariff numbers defining the PFIs several years ago.

² The line value where one-third of the lines are lower in value and two-thirds are higher is called the **threshold line value**.

Cargo Selectivity and Entry Summary Selectivity use line level transactions to process importations. Line level compliance means the transaction was correct from pre-entry review through summary liquidation. This is referred to as the “measured transaction” in the CM National Operational Plan.

The “**Four Square Compliance Matrix**” is partially displayed again, this time only portraying the right hand side featuring Transaction Compliance Rates (CR) by percentage. For exposition purposes, the compliance data has been shaded, the labeling has not:

TRANSACTIONS	
MAJOR	$1 - (\text{MAJOR DISC TRANSACTIONS} \div \text{ALL TRANSACTIONS})$ $= Y\%$
ALL	$1 - (\text{ALL DISC TRANSACTIONS} \div \text{ALL TRANSACTIONS})$ $= Y_1\%$

FIGURE 3-1. COMPLIANCE RATE MATRIX-TRANSACTIONS

The **upper box** shows **Major Transactional Compliance rate (MTC)** expressed as a percentage of total import transactions. Placing 89% in the upper right quadrant means, 89% of all line transactions are compliant AND qualify as major transactions. Only major transactional discrepancies would lower the major transactional compliance rate.

The **lower box** shows the **overall transactional compliance** of line transactions as a percentage of total line transactions. Placing 81% in this lower right quadrant means, 81% of all importations were compliant in terms of all line transactions. All discrepancies, both major transactional discrepancies and minor discrepancies, would lower the overall transactional compliance rate.

Again, identifying MTDs is not the responsibility of officers inputting the discrepancy. This will be an automated, post transaction system, developed by ADD - the information will be supplied either as part of CAPPS or in addition to it. ADD will provide the data for the transactional discrepancies, sorted by national, Customs Management Center (CMC), area port level, and eventually, by Harmonized Tariff and, accounts scheduled for Compliance Assessment. This will enhance analysis to determine resources allocation, what interventions to undertake, which accounts need especially tailored informed compliance work, etc.

Please consider the **Four Square Compliance Matrix** with all four quadrants filled in with the appropriate labels. Numbers inserted within the appropriate shaded areas would portray line and value compliance in terms of major and all discrepancies. **(Please note that in the examples, the import values, import transactions and numbers of discrepancies stem from the CM sampling universe.)** This portrayal could be used as a synthesized representation of a port, CMC, an HTS, a managed account, etc. It would be a useful reference for showing potential areas for additional analysis and resource allocation.

	ISSUE	TRANSACTIONS
MAJOR	1- (ISSUE OF MAJOR NON COMPLIANCE / TOTAL IMPORT VALUE) = X%	1- (MAJOR DISC TRANSACTIONS / ALL TRANSACTIONS) = Y%
ALL	1- (ISSUE OF ALL NON COMPLIANCE / TOTAL IMPORT VALUE) = X ₁ %	1- (ALL DISC TRANSACTIONS / ALL TRANSACTIONS) = Y ₁ %

FIGURE 3-2. FOUR SQUARE COMPLIANCE MATRIX-ISSUES AND TRANSACTIONS

The following example demonstrates how the Four Square Compliance Matrix is calculated for a port's operation.

Suppose an HTS had 1,000 sample importations (lines). The compliant lines equals 850 lines (**A**), 50 lines (**B**) contained other-agency-refused admissions, 50 lines (**C**) had eight-digit misclassifications over-the-threshold value, 25 lines (**D**) eight-digit misclassifications had under the-threshold value, and 25 lines (**E**) ten-digit misclassifications. This results in a MTC 90% (upper, right quadrant) and an overall compliance rate of 85% (lower box quadrant). Why? To calculate the MTC, divide all compliant transactions (**A**), plus the **non-major** transactional discrepancies (**D+E**) by all compliant transactions, i.e., $850+25+25/1,000=.90$ or 90%. To calculate overall Transactional Compliance, divide all compliant transaction's value (**A**) by total import transactions, $850/1,000=.85$ or 85%.

The Major Transaction Compliance Rate equals 90% and the Transaction Compliance rate is 85%. These figures are placed in Figure 3-3 below.

In terms of Major Issue Discrepancies, the same 1,000 importations as in the above example, had a total value of \$100,000. The compliant value equals \$80,000 (**A**) and, \$2,500 (**B**) was refused admission, \$5,000 (**C**) had eight digit misclassification, \$2,500 (**D**) eight-digit misclassifications, \$12,500 (**E**) ten-digit misclassification. The Major Issue Compliance Rate equals 92.5% (upper, left quadrant). The overall Issue Compliance rate is 80% (lower, left quadrant). To calculate the Major Issue Compliance, divide the value for all compliant transactions (**A**) plus the **non**-major issue discrepancies (**D+E**) by all compliant transactions, i.e., $\$80,000 + \$2,500 + \$12,500 / \$100,000 = .95$ or 95%. To calculate overall Issue Compliance, divide all compliant transaction's value (**A**) by total import transactions, i.e., $\$80,000 / \$100,000$. These figures are placed in Figure 3-3 below.

	ISSUE	TRANSACTIONS
MAJOR	95%	90%
ALL	80%	85%

Figure 3-3. Four Square Compliance Matrix-Port Operation

Finally, a specific example of how the value threshold operates. HTS #123456 is a Primary Focus Industry (PFI)* with a value threshold of \$10,000. A hypothetical \$9,000 transaction marked discrepant because it is not legally marked would **not** count as a MTD because the transaction (\$9,000) is less than the **value threshold** (\$10,000). Conversely, the same transaction's value would count as a MID. This may seem to be a contradiction, but it is not. When value compliance is the consideration, it is important to know what is the compliant value in terms of the major issues. Not Legally Marked is a major issue. There is no value qualification. In terms of aggregate value, it is irrelevant that \$50,000 of NLM's resulted from 1 shipment, 5 shipments, or even 100!

Calculating issue compliance without regard to individual line worth accurately portrays efforts expended by air and land border locations, processing low invoice shipments with recurring violations like quota-violations in wearing apparel shipments.

Alternatively, when line transaction compliance is the consideration, the value of the line is a useful filter to stratify discrepancies. It is relevant to stratify the NLM shipments in terms of the value threshold. In terms of aggregate transactions, it is relevant for operational effectiveness to know the number of discrepant transactions above the value threshold.

Figure 3.4 shows **actual** FY 98 National CM rates in the Four Square Compliance Matrix. Coincidentally, both Major Issue and Major Transaction Compliance Rates are 89%, all Issue Compliance rate is 85% and Transaction Compliance is 81%.

	ISSUE	TRANSACTIONS
MAJOR	89%	89%
ALL	85%	81%

Figure 3-4. Four Square Compliance Matrix with FY98 CM data

4.0 UNIFORMITY AND QUALITY

A great amount of time has been spent recently on the issues of uniformity and quality of exam results posted to our ACS system. Unless each discrepancy is uniformly and correctly posted, Customs cannot be assured of what discrepancy types it is measuring, cannot determine the correct proportional value for this discrepancy, and cannot take appropriate action with the importer. In order to insure that the same discrepancy is posted correctly, in exactly the same way, a user guide has been developed, which defines each type of discrepancy, and how to input it correctly into ACS. This user guide has been disseminated.

Uniform Recordation by Discrepancy Type for (cargo) Entries and Entry Summaries is **applicable to both CM and Operational inspections and reviews**. Uniform recording must be applicable to both CM comparisons and targeted inspections and reviews for facilitation if and wherever deemed useful.

Basic training classes conducted at the Federal Law Enforcement Training Center will incorporate the user guide to ensure uniformity of input.

In FY 99, more analytical effort will be devoted to ensuring inspection and summary review input is uniform and accurate.

5.0 GLOSSARY

Four Square Compliance Matrix- A box separated into 4 sections containing compliance rates by value (left side) and by line (right side). The upper, left-side quadrant shows the compliance rate for major issues (value)-X%. The lower, left quadrant shows the total compliance rate (value again)- X1% . The upper, right-side quadrant shows the compliance rate for major transactions (lines)- Y%. The lower, right-side quadrant shows the compliance rate for all transactions-Y1%.

(Please note that the import values, import transactions and numbers of discrepancies stem from the CM sampling universe.) Below is an example of the Four Square Compliance Matrix:

	ISSUES (value)	TRANSACTIONS (lines)
MAJOR	89%	89%
ALL	85%	81%

89%	MAJOR ISSUES (VALUE) COMPLIANCE RATE (CR)	(Actual FY 98 CR)
89%	MAJOR TRANSACTIONS (LINE) CR	(ActualFY98 CR)
85%	ALL ISSUES CR	(ActualFY98 CR)
81%	ALL TRANSACTIONS CR	(ActualFY98 CR)

Major Issues Compliance (MIC)- This term applies to compliance of major issues as it relates to value. In other words, the list enumerated above is significant issues for value. The MIC rate is calculated as the compliance value for major issues, expressed as a percentage of total import value.

Major Issues Discrepancies (MID) are- Illegal Narcotics; IPR; Customs and Other Agency Refusals; Misdelivery (not including shipments proved stolen from the carrier); Quota/Visa, if the change in quantity is more than 10%;Eight-digit Misclassifications -Chapter(2), sub-Chapter (4) , International (6) and U.S. tariff rate level (8), Line Release C4 classification discrepancies; ADCVD; Not Legally Marking; Country of Origin; SPI; Forced Labor; all unentered merchandise, not associated with any line, constituting line values exceeding \$2,000; all imports where the value discrepancy is either 10% or \$5,000 in excess of the entered line's value; all

imports where the quantity discrepancy is either 10% or \$5,000 in excess of the entered line's value; all imports where there is an excess of \$1,000 in revenue loss.

Major Transactions Compliance Rate (MTC) -This term applies to the compliance of major transactions as it relates to lines. In other words, the list enumerated just above is significant transactions. The MTC rate is calculated as the number of all compliant major transactions expressed as a percentage of total import lines. -

Major Transactions Discrepancies (MTD) are- **all discrepant lines** where the discrepancy concerns Illegal narcotics, Intellectual Property Rights (IPR), Refused admissions by Customs or other agency(s) and Misdemeanors. Secondly, all discrepant lines where the discrepancy contains a **unique value qualifier**: all ADCVD discrepancies where **the line value exceeds the median value of the pertinent case number OR** greater than the median value of the PFI or the HTS, all quota/visa discrepancies where the excess quantity is **more than 10% of the amount** and all unentered merchandise **in excess of \$2,000**. Thirdly, discrepant lines meeting two distinct conditions. 1) The discrepancy must involve one of the following: Marking, ADCVD, Quota/Visa, Country of Origin, SPI, Forced Prison Labor, 8 digit Classification error, Line Release C4 classification discrepancies, Value and Quantity where the change exceeds 10% of the entered amount, and all other discrepancies resulting in an increase \$1,000 of Revenue. 2) The line's value must also exceed a **value threshold**. **The line value where one-third of the line transactions are lower in value and two-thirds are higher is called the threshold line value. There is a specific threshold value to be applied for discrepant lines according to the PFI category or all non-PFI category, whichever is appropriate to the line.**